

**Testimony in Support of  
S.B. 478, S.B. 481, S.B. 11, and S.B. 487**

Finance, Revenue, and Bonding Committee

March 30, 2022

Dear Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman, and members of the Finance, Revenue and Bonding Committee:

Connecticut Voices for Children (CT Voices) is a research-based child advocacy organization working to ensure that Connecticut is a thriving and equitable state where all children achieve their full potential. CT Voices supports the following proposals:

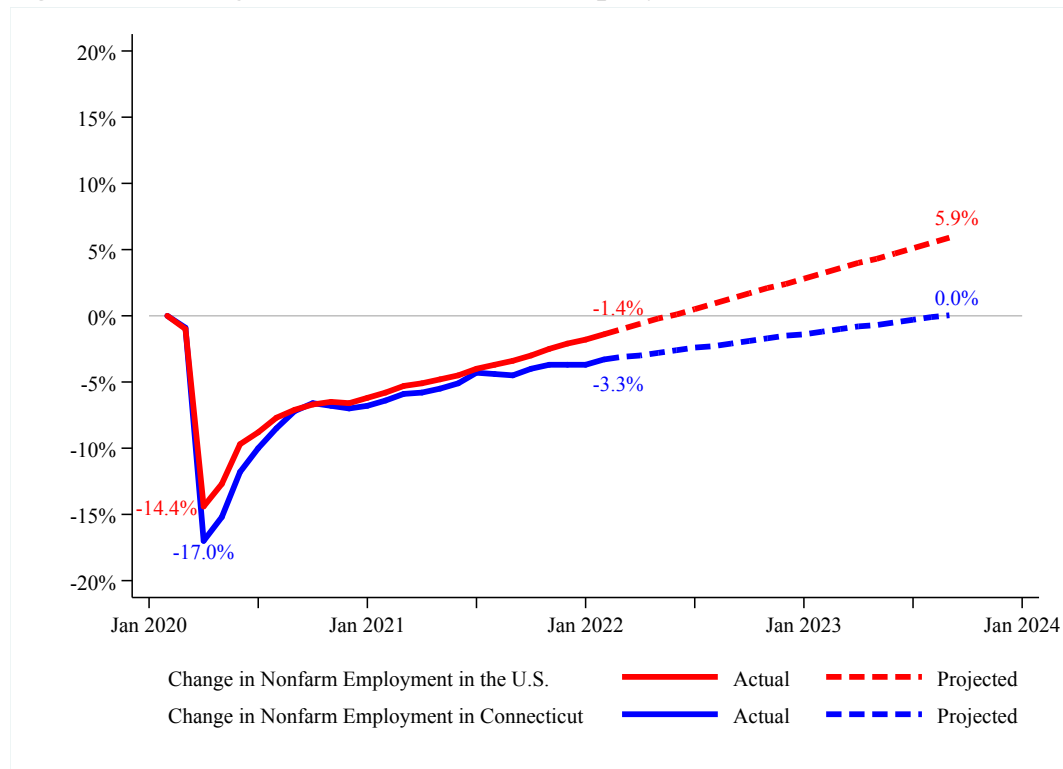
- **Section 3 of S.B. 478**, “An Act Concerning Property Assessment Appeals and Homeownership Incentive Tracts, Establishing Tax Credit Voucher Programs to Incentivize Commercial Leases and Residential Conversions and Authorizing the Capital Region Development Authority to Solicit Investment Funds.”
- **S.B. 481**, “An Act Investing State Funds in Underserved and Low-Income Communities.”
- **Section 1 of S.B. 11**, “An Act Concerning Revenue Items to Implement the Governor’s Budget.”
- **S.B. 487**, “An Act Establishing the Infant and Toddler Early Care and Family Support Initiative.”

Our testimony proceeds in two parts. The first part provides an overview of the importance of supporting Connecticut’s economy and creating a fairer tax system. The second part provides an overview of our support for the above proposals as well as recommendations to strengthen them.

### [The Importance of Supporting Connecticut’s Economy and Creating a Fair Tax System](#)

Similar to the three recessions preceding the pandemic-induced recession of 2020, Connecticut’s economy is recovering slower than the U.S. economy as a whole.<sup>1</sup> As **Figure 1** shows from a new monthly analysis CT Voices released this week—“The Employment Situation in Connecticut, February 2022”—Connecticut is on track to recover its job shortfall from the recession in September 2023, compared to June 2022 for the U.S. as a whole. Moreover, as **Table 1** shows, a major factor contributing to Connecticut’s slower recovery—and one that the state has the most direct control over—is the loss of state and local government jobs. Since the start of the recession in February 2020, Connecticut has lost 8,600 local government jobs and 2,600 state government jobs, which together account for a substantial portion of the remaining shortfall of 56,300 jobs.<sup>2</sup>

**Figure 1. Change in Total Nonfarm Employment, U.S. and Connecticut**



\*Data from the U.S. Bureau of Labor Statistics and author's calculations.

**Table 1. Change in Nonfarm Employment by Major Sector, Connecticut**

Major Sector	February 2020	January 2022	February 2022	Month to Month Change		Change Since February 2020	
				Number	%	Number	%
<b>Government Employment</b>	236,700	226,200	225,300	-900	-0.4%	-11,400	-4.8%
Local Government	146,200	138,300	137,600	-700	-0.5%	-8,600	-5.9%
State Government	71,900	69,500	69,300	-200	-0.3%	-2,600	-3.6%
Federal Government	18,600	18,400	18,400	0	0.0%	-200	-1.1%
<b>Private Sector Employment</b>	1,462,300	1,410,200	1,417,400	7,200	0.5%	-44,900	-3.1%
Construction	59,500	61,600	61,500	-100	-0.2%	2,000	3.4%
Manufacturing	161,000	157,400	157,900	500	0.3%	-3,100	-1.9%
Trade, Transportation, & Utilities	293,500	292,900	297,700	4,800	1.6%	4,200	1.4%
Information	31,500	30,300	30,600	300	1.0%	-900	-2.9%
Financial Activities	122,600	117,600	117,600	0	0.0%	-5,000	-4.1%
Professional & Business Services	216,400	213,700	212,600	-1,100	-0.5%	-3,800	-1.8%
Education & Health Services	351,700	334,300	336,200	1,900	0.6%	-15,500	-4.4%
Leisure & Hospitality	159,500	141,900	143,100	1,200	0.8%	-16,400	-10.3%
Other Services	66,000	59,900	59,600	-300	-0.5%	-6,400	-9.7%
<b>Total Nonfarm Employment</b>	1,699,000	1,636,400	1,642,700	6,300	0.4%	-56,300	-3.3%

\*Data from the U.S. Bureau of Labor Statistics and author's calculations.

In addition to the overall slower job recovery, **Table 2** shows that the recovery is highly unequal when analyzing employment status by major demographic groups. For example, in February 2022—the most recent month data are available—the labor force participation rate in Connecticut for women is 59.4 percent, down from 61.2 percent in February 2020, and substantially lower than the 68.2 percent of men in Connecticut that are currently in the labor force. One major factor keeping women out of the labor force is the lack of affordable, high-quality child care in Connecticut.

For another example of the highly unequal recovery, the overall unemployment rate in Connecticut is 4.9 percent in February 2022, but for Black workers it is 9.1 percent and for Hispanic or Latino/a/x workers it is 7 percent, compared to 4.2 percent for white workers. Some of the factors that contribute to the racial unemployment rate gap is direct discrimination in the labor market as well as discrimination in housing and education that further limit the opportunities in the labor market for workers of color.<sup>3</sup>

**Table 2.** Employment Status by Major Demographic Group, U.S. and Connecticut

Employment Status Indicator and Major Demographic Group	United States			Connecticut		
	February 2020	January 2022	February 2022	February 2020	January 2022	February 2022
<b>Labor Force Participation Rate</b>						
Total	63.4	62.2	62.3	66.9	63.6	63.6
Men	69.3	67.9	68.3	73.1	68.6	68.2
Women	57.9	56.8	56.6	61.2	59.0	59.4
White	63.3	62.0	62.2	67.1	63.5	63.9
Black	63.2	62.0	62.2	65.7	62.6	62.1
Asian	64.2	64.4	62.9	66.8	64.8	63.1
Hispanic or Latino/a/x	68.0	66.4	66.6	69.6	66.7	65.9
16 to 19 Years Old	36.6	36.6	35.8	30.4	26.9	27.0
20 to 24 Years Old	73.2	71.1	71.7	74.1	65.9	64.8
25 to 54 Years Old	83.0	82.0	82.2	88.2	85.8	85.6
55 Years Old and Over	40.3	39.1	39.1	44.1	41.3	42.0
<b>Unemployment Rate</b>						
Total	3.5	4.0	3.8	3.4	5.3	4.9
Men	3.5	4.1	3.8	4.0	5.8	5.6
Women	3.4	3.9	3.9	2.7	4.8	4.2
White	3.0	3.4	3.3	3.2	4.6	4.2
Black	6.0	6.9	6.6	5.2	9.1	9.1
Asian	2.5	3.6	3.1	1.8	4.8	4.0
Hispanic or Latino/a/x	4.4	4.9	4.4	5.0	8.4	7.0
16 to 19 Years Old	11.3	10.9	10.3	12.0	12.2	12.6
20 to 24 Years Old	6.5	7.3	7.5	6.2	10.7	10.4
25 to 54 Years Old	3.0	3.5	3.3	2.9	4.6	4.5
55 Years Old and Over	2.6	3.1	3.0	2.8	4.7	3.6

\*Data from the U.S. Bureau of Labor Statistics and author's calculations.

The other major, relevant issue of concern here is Connecticut’s unfair tax system. In a report CT Voices published recently, we show two key findings that are presented in **Table 3** and reviewed below.

**Connecticut’s unfair tax system continues to exacerbate income inequality.** Using data from the DRS’ annual income tax report for 2019, the average wealthy family in Connecticut has a pre-tax income of nearly \$3.1 million, which is 137-times greater than the pre-tax income of \$22,500 for the average working-class family. Using data from the DRS’ new tax incidence report, a family with an income of \$3.1 million has an effective state and local tax rate of 7.08 percent, compared to 25.96 percent for a family with an income of \$22,500. As a result of Connecticut’s unfair tax system, the average wealthy family’s post-tax income increases to 171.6-times greater than the post-tax income of the working-class family, which is a 34.6-point increase in the income inequality ratio that was already exceptionally high.

**Connecticut’s unfair tax system continues to exacerbate the racial income gap.** Adding data from the U.S. Census Bureau, the average wealthy family in Connecticut has a pre-tax income that is 63.1-times greater than the pre-tax income of \$48,900 for the median Black household. Moreover, the average wealthy family has an effective tax rate of 7.08 percent, compared to 19.55 percent for a household with an income of \$48,900. As a result of Connecticut’s unfair tax system, the average wealthy family’s post-tax income increases to 72.9-times greater than the post-tax income of the median Black household, which is a 9.8-point increase in the income inequality ratio that was already exceptionally high due in large part to a substantial racial income gap. In comparison, Connecticut’s unfair tax system increases the income inequality ratio by 3.6 points for the median white household, which has an effective state and local tax rate of 15.50 percent.<sup>4</sup>

**Table 3. Impact of Connecticut’s Unfair—or Regressive—Tax System**

Average Family / Median Household	Pre-Tax		Effective State & Local Tax Rate	Post-Tax		Change in Inequality Ratio
	Income	Inequality Ratio		Income	Inequality Ratio	
Average Wealthy Family	\$3,083,600	-	7.08%	\$2,865,300	-	-
Average Upper-Class Family	\$352,800	<b>8.7x</b>	10.35%	\$316,300	<b>9.1x</b>	<b>+0.4</b>
Average Middle-Class Family	\$97,400	<b>31.7x</b>	15.50%	\$82,300	<b>34.8x</b>	<b>+3.1</b>
Average Working-Class Family	\$22,500	<b>137.0x</b>	25.96%	\$16,700	<b>171.6x</b>	<b>+34.6</b>
Average Wealthy Family	\$3,083,600	-	7.08%	\$2,865,300	-	-
Median White Household	\$85,800	<b>35.9x</b>	15.50%	\$72,500	<b>39.5x</b>	<b>+3.6</b>
Median Latino/a/x Household	\$49,200	<b>62.7x</b>	19.55%	\$39,600	<b>72.4x</b>	<b>+9.7</b>
Median Black Household	\$48,900	<b>63.1x</b>	19.55%	\$39,300	<b>72.9x</b>	<b>+9.8</b>

\*Data from CT DRS, U.S. Census Bureau, and author’s calculations. Pre- and post-tax incomes rounded to nearest hundred.

## Proposals to Support Connecticut's Economy and Create a Fairer Tax System

To support Connecticut's economy, especially the most disadvantaged workers, and to create a fairer tax system for working- and middle-class families, CT Voices supports the following proposals and provides several recommendations to strengthen the bills.

**Section 3 of S.B. 478** exempts from the personal income tax “each owner of an owner-occupied home and each eligible renter within a homeownership incentive tract” if they also qualify for the Connecticut earned income tax credit (CT EITC). While we support policymakers providing a tax cut for working-class families in order to increase homeownership in low-income communities, we believe it is important to highlight that many families that qualify for the CT EITC do not have a state income tax burden. For example, a married working-class family in Connecticut that makes \$22,500 a year (the average working-class income) has no state income tax liability. Moreover, if the family has two children, it receives about \$1,825 from the refundable CT EITC, meaning the family has a negative income tax liability. To take another example, a married working-class family in Connecticut that makes \$45,000 (a higher-end working-class income) has a state income tax liability of about \$550 before applying the refundable CT EITC of about \$570 (if the family has two children), resulting in a negative income tax liability.<sup>5</sup>

The above examples show that even when restricting the tax cut to families that receive the CT EITC (primarily working-class families), the tax cut would exclude many lower-income families and the size of the tax cut would increase as the family's income level increases. One possible solution to address this issue is to provide a tax cut through the Connecticut property tax credit (CT PTC) rather than provide an income tax exemption. As we address in more detail below concerning the governor's proposal, we recommend making the CT PTC refundable and available to renters, which would ensure that the credit helps more working-class families. It would also be possible to increase the maximum amount of the reformed CT PTC for families living in “homeownership incentive tracts,” which would support the objective of this bill.

**S.B. 481** would “require the investment of state funds in community banks, community credit unions and community development financial institutions to promote community or economic development in certain underserved communities.” It would also “authorize the establishment of a program to guarantee loans made to certain borrowers who would not otherwise qualify for such loan.” We support policymakers providing increased credit to underserved communities as well as providing loans to the working-class families living in those communities, which would help to promote economic development and lower the high unemployment rate for workers of color. However, we believe it is important to highlight that this bill *requires* the Treasurer to make those investments rather than act “based on cash availability” and it does so without providing a new source of funds. We therefore do not know how this may impact the Treasurer's management of the state's long-term obligations, which includes a high level of debt and unfunded pension liabilities.

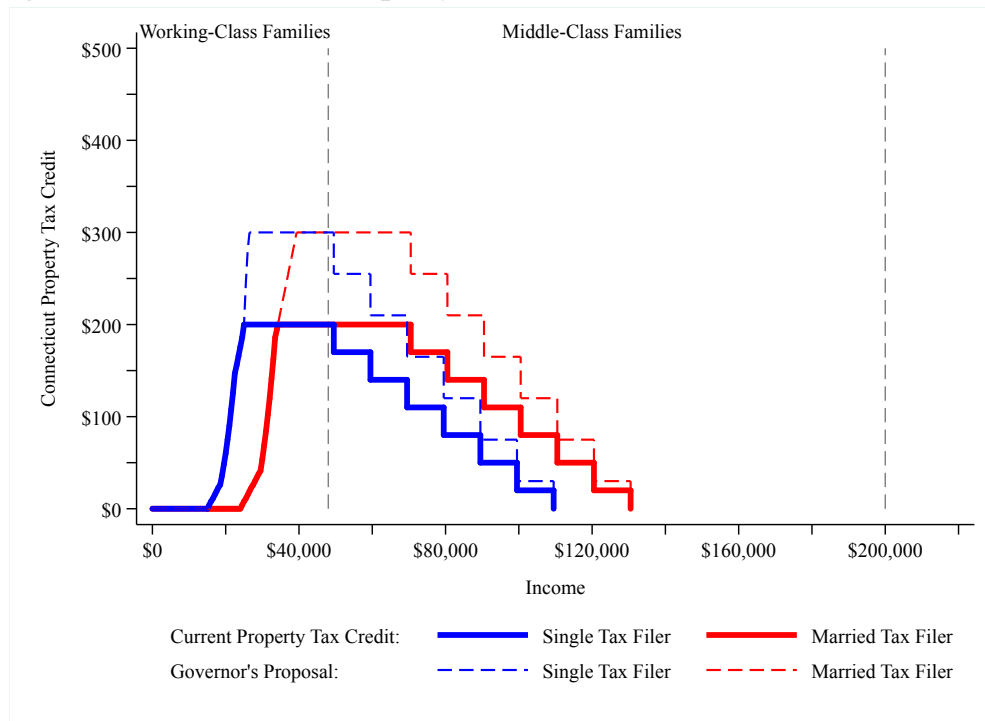
One way to address this issue is to provide new funds. As we have detailed in recent research and other testimony, Connecticut has an estimated \$2.6 billion annual income tax gap that the state could close or reduce to fund this proposal and other proposals. Specifically, the FY 2022 budget funds 625 full-time positions in the Department of Revenue Services (DRS), down from 833 in FY 2000. If policymakers added 200 auditors, which would bring the overall staff level in the DRS back nearly to the level in 2000, that would generate an estimated \$400 million in revenue based on the DRS' own estimate of \$2 million per auditor. To be sure, the return on investment would eventually decrease as the number of new auditors increases but the DRS confirmed that it is “not even close to full capacity,” and we estimate in our January 2022 tax report that Connecticut’s income tax gap is likely significantly greater than \$400 million—possibly \$2.6 billion a year. In addition to providing more revenue, increasing the staff at the DRS would help to boost Connecticut’s job recovery, which, as detailed above, is lagging in large part due to the loss of state and local government jobs.<sup>6</sup>

**Section 1 of S.B. 11** would increase the maximum CT PTC from \$200 to \$300 and restore full eligibility of the credit in 2022. While we support the governor’s proposal because it would provide a tax cut for many working- and middle-class families, we recommend that policymakers consider addressing the following issues that this proposal would not currently change.

**The CT PTC is nonrefundable, which hurts working-class families.** A “refundable” tax credit is paid to a tax filer if it exceeds their income tax liability, whereas a “nonrefundable” tax credit is capped by the amount of income tax liability. Although many working-class families pay at least \$200 in the property tax and meet the necessary income requirements, they do not have enough income tax liability to qualify for the maximum CT PTC and therefore receive either no credit or a reduced credit. For example, as **Figure 2** shows, a married working-class family that makes \$22,500 receives no CT PTC because the family has no income tax liability. If the objective is to offset the high property tax burden in Connecticut, receiving the CT PTC should not depend on income tax liability. As our previous testimony explains, **H.B. 5487** would address this problem.<sup>7</sup>

**The CT PTC is not available to renters, which especially hurts working-class families.** Homeowners pay the property tax directly and potentially qualify for the CT PTC in addition to benefitting from the equity that they build in owning their home. In contrast, renters pay the property tax indirectly and (if they do not own a motor vehicle) they do not qualify for the CT PTC in addition to not building equity. Excluding renters especially hurts working-class families because they are less likely to own a home compared to families in higher income groups. As our previous testimony explains, **H.B. 5490** would address this problem in part by establishing a personal income tax deduction for rent paid. Compared to the status quo, the proposed income tax deduction is a substantial improvement because it would provide a tax cut for many working- and middle-class families. However, it is inferior to making the increased and reformed CT PTC under **H.B. 5487** available to renters.<sup>8</sup>

**Figure 2. Connecticut Property Tax Credit: Current Law and S.B. 11**



\*Data from CT DRS, CT General Assembly, and author's calculations.

**The CT PTC includes a marriage penalty, which hurts middle-class families.** The CT PTC is available to single tax filers that make up to \$109,500, which includes more than 90 percent of all single tax filers. In contrast, the CT PTC is only available to married tax filers that make up to \$130,500, which includes less than 65 percent of all married tax filers and therefore excludes many middle-class families. As our previous testimony explains, **S.B. 27** would address this problem in part,<sup>9</sup> and **H.B. 5487** would more effectively address this problem.<sup>10</sup>

**The CT PTC is not indexed to inflation, which hurts working- and middle-class families over time.** Along with other major components of the income tax—the exemption, brackets, and personal credit—the CT PTC is not indexed to inflation and therefore its real value decreases each year. As our previous testimony explains, **H.B. 5487** would address this problem.<sup>11</sup>

To improve the CT PTC, we recommend that policymakers make any one or all of the following changes: (1) make the CT PTC refundable; (2) make the CT PTC available to renters; (3) remove the marriage penalty, and (4) inflation index the CT PTC.

**S.B. 487** would establish the Infant and Toddler Early Care and Family Support Initiative and fund it through the use of the state's revenue cap, which at 1.5 percent of the General Fund and Special Transportation Fund in FY 2024 and 2 percent in FY 2026 would likely provide more than \$350 million in FY 2024 and around \$500 million a year in FY 2026 and beyond. We support policymakers



providing increased funding for child care, which will help boost Connecticut's economy by getting more parents, especially women, back into the labor force. This increased funding will also help many families and children by addressing the ongoing problems of Connecticut's high cost of child care, the high cost of raising children, Connecticut's changing population, Connecticut's slow economic growth, and the unsustainability of child care compensation for providers in Connecticut.

To strengthen the bill, we recommend carving out a minimum percent of grants that shall prioritize helping family child care homes (FCCs) reach accreditation. We recommend that at least 33 percent of these grants receive this designation. Accreditation is a costly, labor-intensive process. Reaching accreditation is far more possible for child care providers that provide care to families with higher earnings, employ staff who can write grant requests, and employ additional staff beyond the provider. FCCs, which tend to have only one or two staff members, are at a disadvantage as far as being able to seek and accomplish accreditation.

According to data provided by 211 Child Care and United Way CT, in March of 2022, FCCs comprised almost half of all providers in Connecticut, but only two percent of FCCs have achieved accreditation. In comparison, nearly a third of child care centers are accredited, and a quarter of nursery schools are accredited. Building in a priority status to help FCCs achieve accreditation will improve the quality of care FCCs can provide, and it will also advance racial equity. Nationally, women of color make up 40 percent of FCC home providers.<sup>12</sup> They also receive lower compensation for care than child care centers, which perpetuates racial and ethnic inequities within Connecticut's early childhood care and education system. To meet the expressed intentions of supporting providers of infant and toddler care and supporting diversity within the early care workforce, we believe that providing extra support to FCCs is critical to meeting these goals.

### **Just Facts**

- According to the World Population Review, Connecticut has the fourth highest average child care costs in the country, at \$15,591 per year.<sup>13</sup>
- According to United Way 211 child care cost data, the average cost of full-time infant and toddler care at a child care center over a year (52 weeks) is \$16,305, and costs may reach as high as \$32,500. The average cost of full-time infant and toddler care at a family child care home over a year is \$12,609, and costs may reach as high as \$24,700.<sup>14</sup>
- Due to the growing cost of health care, child care, and education, growth in the cost of raising a child over the last two decades has outpaced growth in the typical family's income, making it increasingly unaffordable to raise a child, especially for families that require full-time child care.<sup>15</sup>
- The high and growing cost of raising a child, especially for families that require full-time child care, has contributed to a decline in the natural rate of population change, which has slowed



population growth in the U.S. and even more so in Connecticut. This in turn has contributed to slow economic growth in the U.S. and even slower growth in Connecticut, which hurts all of the state's families.<sup>16</sup>

- Child care providers in Connecticut are not paid a fair and sustainable wage, and this is especially true for those who provide infant and toddler care. Connecticut child care workers' families are more than twice as likely to live in poverty than other families: 11.8 percent compared with 5.8 percent.<sup>17</sup> Once accounting for the number of hours family child care (FCC) providers work, CT Voices estimates their hourly 2020 wages were between \$6.10 and \$8.64 if entirely relying on Care 4 Kids.<sup>18</sup> Similarly, we find that child care center directors cannot cover all their costs if they rely on Care 4 Kids alone. They must charge market-rate tuition to break even financially.<sup>19</sup>

Thank you for your consideration,

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Connecticut Voices for Children

Lauren Ruth, Ph.D.  
Research and Policy Director  
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